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RR RUEHCN RUEHGH  
DE RUEHGH #0060/01 0420131  
ZNR UUUUU ZZH  
R 110131Z FEB 08  
FM AMCONSUL SHANGHAI  
TO RUEHC/SECSTATE WASHDC 6685  
INFO RUEHBJ/AMEMBASSY BEIJING 1710  
RUEHCN/AMCONSUL CHENGDU 1114  
RUEHGH/AMCONSUL GUANGZHOU 1085  
RUEHSH/AMCONSUL SHENYANG 1112  
RUEHIN/AIT TAIPEI 0925  
RUEHHK/AMCONSUL HONG KONG 1246  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEHGH/AMCONSUL SHANGHAI 7220

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USTR FOR STRATFORD/WINTER/READE/MCCARTIN  
USDOC FOR DAS KASOFF AND ITA/OCEA  
TREASURY FOR OASIA - CUSHMAN, WINSHIP

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [KIPR](#) [CVIS](#) [PREL](#) [BEXP](#) [CH](#)

SUBJECT: EAP DAS CHRISTENSEN'S JANUARY 22-23 MEETINGS WITH SHANGHAI  
MAYOR AND AMCHAM MEMBERS

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11. (SBU) Summary: EAP DAS Thomas Christensen met separately January 22 and 23 with Shanghai Mayor Han Zheng and American Chamber of Commerce in Shanghai (AmCham) representatives. Mayor Han said the city's 2008 growth target would be only ten percent, after realizing 13.3 percent in 2007. Han expressed confidence that inflation will not adversely affect Shanghai's growth or competitiveness. He attributed recent increases in inflation almost entirely to increased food costs. Mayor Han also urged the United States to join about 200 other nations and regions in having a national pavilion at the 2010 Shanghai World Expo. The Mayor made a pitch for the waiver of biometric collection for senior officials at the local level, as can be done for some senior officials in Beijing. DAS Christensen's exchange of views with U.S. business representatives elicited continuing concerns about protection and enforcement of intellectual property rights (IPR) in China as well as a less welcoming environment for foreign mergers and acquisitions in China. End summary.

Relaxed Mayor Han Touts Shanghai's Continuing Rapid Economic Growth

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12. (U) A relaxed Mayor Han started the January 22 meeting with a long recitation of figures about Shanghai's. Shanghai GDP growth in 2007 would be announced in a few days' time as 13.2 or 13.3 percent, and the consumer price index had increased 3.2 percent versus an early 2007 prediction of 3 percent. Disposable income was up about 10 percent in Shanghai in 2007 after inflation. The city continues to pursue its goal of becoming an international center for trade, shipping, and financial services, and the Mayor highlighted that shipping services had grown particularly well in 2007.

13. (SBU) DAS Christensen contrasted the 13 percent GDP growth rate in 2007 with the recent imposition of price controls and increased concern among Chinese Government officials about rising inflation. The Mayor asserted that inflation has had no impact to date on Shanghai's growth rate or competitiveness.

Under the concept of "scientific development," Shanghai's economic development goals have become both quality growth and high efficiency. The city's 2008 growth rate goal is only ten percent, and measures are being implemented to control investment and land use and to reduce pollution emissions year after year. The Mayor attributed 3.1 points of the city's 3.2 percentage point change in CPI in 2007 to food price increases. Therefore officials found temporary price controls on basic foods such as meats and cooking oil necessary, especially as the Lunar New Year holiday period draws near. Mayor Han noted that rising corn prices had benefits for China's farmers, while diversion of corn to ethanol production and changing dietary habits also impacted the supply and price of other agricultural goods. The Mayor expressed optimism that despite many challenges, difficulties and risks, Shanghai's GDP should grow 10 percent in 2008, disposable income should increase 10 percent, and the CPI increase should be controlled within China's national target rate.

#### Mayor Stresses Importance of U.S. Pavilion at Shanghai World Expo

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14. (SBU) Shanghai hopes to attract more than 200 nations and regions as exhibitors at the 2010 World Expo in Shanghai, Mayor Han said. Already 188 exhibitors are signed up. Shanghai very much hopes that the United States will have a national pavilion at the Expo, in addition to exhibits planned by U.S. corporations. The Mayor noted that the United States had a national pavilion at the 2005 World Expo in Aichi, Japan but had not been a participant at the 2000 World Expo in Hanover, Germany. DAS Christensen briefly outlined the legislative restraints on the Executive Branch for organizing a U.S. national pavilion, including the requirement that the cost of a pavilion be covered entirely by private funds. DAS Christensen assured the Mayor that the United States appreciates the importance of the Shanghai World Expo and wants to have a national pavilion.

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15. (SBU) U.S. Nonimmigrant Visa Application Procedures: The Mayor expressed concern about the waiting period for Chinese to obtain a visa interview and urged the Consulate General to increase the number of personnel assigned to handle visa applications. DAS Christensen noted the rapid increase of applications in the Shanghai Consular District (adjudications have been increasing at a 15 percent rate or higher for several years) and highlighted the great number of student visa issuances within the total workload; person-to-person exchanges are a key role to build greater understanding. The Mayor also said fingerprinting requirements are not welcomed by many applicants, especially provincial and local government officials. He referenced the new procedures in place in Beijing for senior government officials at the level of vice minister and above, who do not need to be fingerprinted. Mayor Han urged that the Consulate implement similar procedures for senior government officials at the local level. The Consul General noted that with the transition to ten-digit biometric collection, we would soon be able to waive the interview requirement for reissuance of some visas.

16. (SBU) The Mayor also expressed appreciation for the participation of U.S. company executives on the Mayor's international business advisory committee, which meets every autumn and provides recommendations on means to improve the business and investment climate in Shanghai. 2008 marks the twentieth anniversary of this advisory committee. He also appreciated the exchange of views between the Shanghai Municipal Government and American business community that occurs each year at the Shanghai AmCham Government Appreciation dinner. These practices and events also contribute importantly to bilateral understanding.

AmCham Concerns about IPR and Climate for Mergers and Acquisitions

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¶17. (U) DAS Christensen exchanged views with AmCham officers and member company representatives at a January 23 breakfast. He outlined for AmCham the importance of the Senior Dialogue and the Strategic Economic Dialogue to maintaining and improving bilateral relations, especially underscoring the need for Chinese progress on economic issues in the near term. Subsequent discussion with the AmCham representatives elicited concerns about IPR enforcement and China's forthcoming national IPR strategy as well as about the current climate for mergers and acquisitions in China.

¶18. (SBU) IPR: AmCham reps predicted that Vice Premier Wu Yi's successor is likely to be more conservative than she in propelling progress on IPR enforcement and on other trade and economic issues. The business community does not see a new leader on IPR enforcement emerging. Enforcement at the local level remains the critical requirement for successful and sustained IPR protection, and WTO cases against China on IPR may not exert pressure on the local levels to improve enforcement. Guangdong Province remains the biggest problem area for most industries, whether in terms of export goods, wholesaling of infringing goods or distribution of infringing goods. U.S. companies in China have increasing concerns about patent protection and technology transfer issues, a company representative asserted. Furthermore, China's national IPR strategy will address twenty or more topics when released, probably in June 2008, and the business community still knows very little about what China plans to do and how that strategy may affect their operations and opportunities in China.

¶19. (SBU) IPR - continued: While the annual AmCham member survey indicates an important perception of IPR enforcement improvements, that data is subjective, not scientific, company reps contended. The Quality Brands Protection Committee (QBPC, an association of multinational companies in China formed to advocate better trademark protection but now also addressing other areas of IPR) will launch monitoring of IPR enforcement in Zhejiang Province with respect to complaints filed by QBPC member companies. The U.S. Chamber of Commerce will undertake a related effort in Jiangsu Province. Tracking of enforcement

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complaints should provide a better benchmark with which to evaluate the efficacy of China's IPR enforcement efforts. One company representative suggested that blending current AmCham survey results with respect to IPR and fraud and corruption may be a better benchmark to evaluate IPR enforcement than the explicit IPR responses alone. Several companies highlighted the importance of due diligence by new market entrants and the vital importance for companies in the China market to have intellectual property protection and risk management as explicit, highly ranked goals. One company representative discussed an innovative program in which U.S. companies would honor and reward local officials for good enforcement of intellectual property rights at ceremonies in Beijing. While there was some gloomy evaluations of the environment nationwide on IPR and the prospects of significant improvement, at DAS Christensen's prompting, skeptics seemed to agree that the fact that areas like Shanghai were better on issues like IPR protection than many less developed inland areas, there is reason for some hope that further engagement of China on these issues and further economic development will eventually transform some deeply entrenched bad habits in the Chinese government and society.

¶10. (SBU) Mergers and Acquisitions: DAS Christensen inquired about the climate for mergers and acquisitions; did U.S. company representatives in China see evidence of what outside observers describe as increased economic nationalism? All present affirmed that they felt that the climate for mergers and acquisitions has become less welcoming recently. The criteria by which the China Securities Regulatory Commission considers acquisitions via stock shares remain unknown to outsiders, one businessman highlighted. Chinese companies' expectations about

their intrinsic value and desirability as takeover targets often have risen unrealistically because of expectations that a domestic initial public offering could raise tremendous proceeds. Representatives of two companies that have acquired Chinese factories or soybean and feed mills in the past but now find greater regulatory or perceptual hurdles to new acquisitions expressed hope that the mid-January correction on the Shanghai Stock Exchange (down 12 percent in two days) might prove to be a good dose of realism for domestic companies who believe that IPOs and subsequent stock trading can only result in higher and higher company valuations.

111. (U) DAS Christensen has cleared this report.SCHUCHAT